JAMES L. McINTIRE
State Treasurer

State of Washington
Office of the Treasurer

Fellow Washingtonians,

I am pleased to deliver Washington's third Debt Affordability Study, a comprehensive annual update on the state's debt obligations.

The Debt Affordability Study examines the entire footprint of the state in capital markets - all of the state's bonds and certificates of participation - as well as obligations associated with the School Bond Guarantee Program and liabilities such as public pensions, the Guaranteed Education Tuition program, and debt issued by higher education institutions. It details debt issuance trends, borrowing costs and debt constraints and examines financial and economic indicators used to measure the affordability of debt. Finally, it examines Washington's debt burden in relation to that of other states.

Decisions regarding the state's use of debt center on the choice between undertaking capital projects today and providing for ongoing governmental services or future investments in infrastructure. Increasing the prudent issuance of debt backed by user fees is expected to improve the state's budgetary flexibility and more closely align infrastructure revenues with associated project costs. At a time of unusually significant economic challenges and scarce revenues, policymakers find themselves under great pressure to strike a difficult balance between today's needs for public infrastructure and the risks of overburdening budgetary flexibility and future taxpayers.

Taking steps now to manage the state's scarce debt capacity will help tax payers get the lowest possible costs on funds for capital construction, transportation and infrastructure projects and can help ensure that sufficient resources will be available for future needs.

Sincerely,

James L. McIntire,
State Treasurer and Chair, State Finance Committee

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Debt Affordability Study

January 2013

James L. McIntire

Washington State Treasurer

1. Overview

As the 13th most populous state in the nation with 7 million people – and still growing – Washington faces many infrastructure needs: K-12 schools, higher education facilities, correctional facilities, roads, bridges, recreational space and natural resource investments. When building new, replacing old, or making needed renovations to existing facilities, Washington state government has increasingly relied on debt financing.

However, debt capacity is a limited resource, constrained by the limited discretionary state government revenues available to repay the state's debt. Slower economic growth not only stresses current budgets, but also limits the state's ability to borrow due to lower projections of future revenues.

Even as debt supports economic activity by allowing infrastructure investments to occur sooner than would otherwise be possible, debt financing has the potential to reduce the state's ability to provide other government services in the future. Borrowing against future tax revenues can result in debt service costs "crowding out" the government's ability to provide ongoing services.

As significant global, national and state-level economic challenges continue, revenue remains comparatively scarce. As a result, policymakers still must struggle to strike the difficult balance between today's needs for public infrastructure investment against the risk of limiting the ability to provide needed government services in the future.

By comprehensively and clearly displaying information about all of the state's debt obligations, this third annual Debt Affordability Study is designed to help guide Washington's policymakers as they make these choices about the amounts, types and uses of debt financing.

This report provides an annual overview of the state's debt obligations, those backed by the state's general obligation pledge and those supported by other pledges. It describes the characteristics of these different types of debt – taking note of issuance trends, borrowing costs and effective constraints. The debt profile for Washington state is then compared with that of other states across the country. Finally, the report provides an assessment of the state's overall "debt affordability" by using demographic and financial indicators to measure the affordability of the state's existing and projected future total debt against the state budget, the state's taxpayers and the state economy.

2. Types of Debt Obligations

The state of Washington borrows money primarily to undertake large capital projects such as building construction, land acquisition, and transportation projects. With each borrowing, the state typically commits to make regular and approximately equal payments over the term of the borrowing to repay the debt, which includes the principal amount borrowed plus some amount of interest. Moreover, the term of the borrowing is within the expected useful life of the asset.

The alternative to debt financing is to cash fund capital expenditures by relying on revenues received over time. With debt financing, funds are available for project construction sooner and with greater predictability. Although the state pays interest, debt-financed capital projects can be cost-effective if borrowing costs are less than the costs associated with waiting to build. In addition, debt-financing can promote tax equity as each asset is paid for over its useful life, and not all-at-once by taxpayers in a given year. However, leveraging future tax revenues with debt financing commits resources from future biennia for today's capital projects.

The majority of Washington's debt obligations cover three financing programs – Various Purpose General Obligation bonds that pay for capital projects such as schools, higher education buildings, and correctional facilities; Motor Vehicle Fuel Tax General Obligation bonds that pay for roads, bridges and ferries; and Certificates of Participation used for certain real estate and equipment needs.

Beginning in 2011, the state launched new revenue-backed financings to fund portions of the SR 520 Corridor Program. The first was "triple pledge" bonds first payable from toll revenues, second payable from Motor Vehicle Fuel Taxes, and ultimately backed by the state's general obligation pledge. Second, the state issued its first Federal Highway Grant Anticipation Revenue Bonds, or GARVEEs in 2012. Third, the state secured a toll-backed loan from USDOT in 2012 under the TIFIA program.

General Obligation Bonds

Bonds are "general obligations of the state" when the state irrevocably pledges its full faith, credit and taxing power to the payment of the bonds. The ability of the state to make this pledge is provided in the State Constitution.

There is no express provision in the Constitution or in state law on the priority of payment of debt service on state debt as compared to the payment of other state obligations. The constitutional mandate regarding payment of state debt, however, does require that the Legislature appropriate sufficient funds to pay state debt when due, and provides expressly for judicial enforcement of the state's payment obligation on that debt. No other provision of the Constitution contains comparable language providing the courts with authority to compel payment of other state obligations.

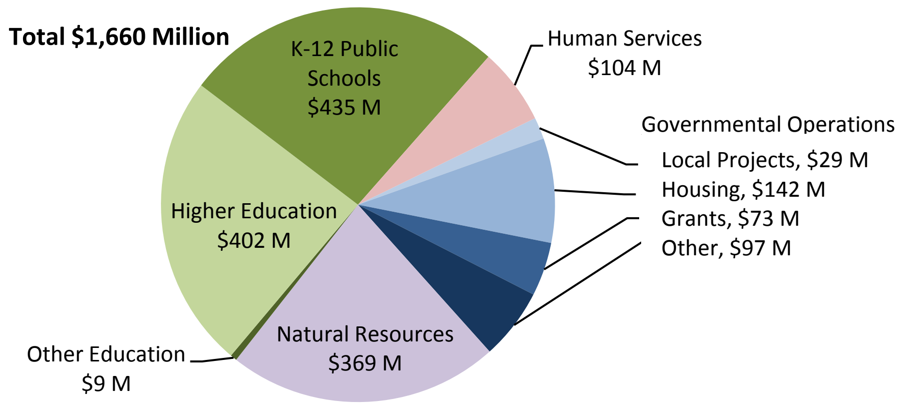
Various Purpose General Obligation bonds, Motor Vehicle Fuel Tax General Obligation bonds, and triple pledge bonds all carry the state's general obligation pledge. Bonds with a general obligation pledge have the strongest security pledge the state can make and they carry the highest credit ratings of all the state's obligations. Accordingly, borrowing costs on general obligation bonds are lower than costs for other types of state obligations.

Various Purpose General Obligation Bonds

Various Purpose General Obligation (VP GO) bonds are issued to pay for a wide variety of state projects including K-12 school construction, higher education facilities, correctional facilities, environmental preservation, state office buildings, and public works infrastructure. Figure 1 shows the allocation of new bond appropriations specified in the 2011-13 Capital Budget.

VP GO bonds are typically issued with 25-year maturities. As of December 31, 2012, outstanding VP GO bonds totaled $11.0 billion – an amount reflecting bonds issued over the past 25 years.

Figure 1. 2011-13 Capital Budget New Bond Appropriations



Source: Legislative Evaluation & Accountability Program (LEAP) Committee

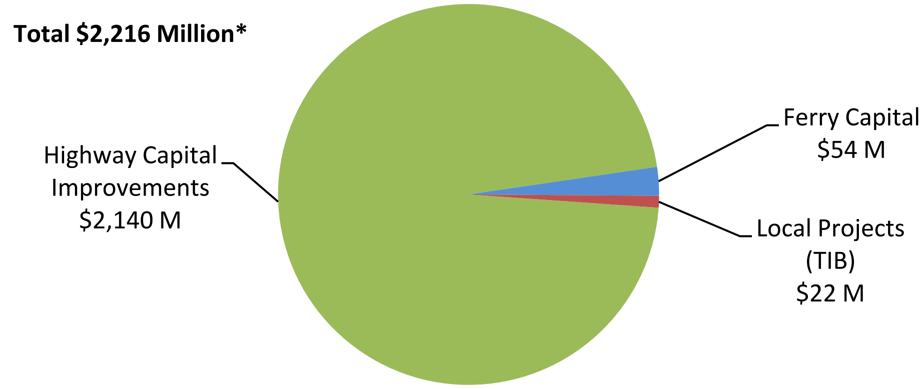
Motor Vehicle Fuel Tax General Obligation Bonds

Motor Vehicle Fuel Tax (MVFT GO) bonds are also general obligations and – like the various purpose bonds – are backed by the full faith, credit and taxing power of the state. But, in keeping with the State Constitution, debt service on these bonds is first payable from state excise taxes on motor vehicle and special fuels.

MVFT revenues are constitutionally restricted to highway capital and operating purposes including: construction, maintenance, repair and improvements of public highways, county roads, bridges, city streets; policing of state highways; operation of movable span bridges; and ferry operations. A small portion of the proceeds of MVFT GO bonds (shown as Local Projects in Figure 2) may be allocated to cities and urban counties for street construction and maintenance grants.

MVFT GO bonds carry the same ratings as VP GO bonds and borrowing rates are the same. MVFT GO bonds have been issued with 25- to 30-year maturities. As of December 31, 2012, outstanding MVFT GO bonds totaled $6.5 billion – an amount reflecting bonds issued over the past 25 years.

Figure 2. **2011-13 New MVFT GO Bond Appropriations**



*Also, VP GO bonds were authorized in 2011-13 for ferry projects ($27.5 M) and rail projects ($12.1 M).
Source: Department of Transportation as of September 2012

Triple Pledge Bonds

In 2011, the state issued $518.8 million MVFT GO (SR 520 Corridor Program – Toll Revenue) Series 2012C bonds – known as triple pledge bonds – to finance improvements to the SR 520 Corridor. Although the state pledges its full faith and credit, the bonds are first payable from toll revenue, then from state excise taxes on motor vehicle and special fuels, and then supported by the general obligation pledge.

This financing marks a noteworthy change in issuance philosophy towards self-supporting infrastructure finance. Prudent issuance of debt backed by user fees such as tolls is expected to improve the state's budgetary flexibility and more closely align infrastructure revenues with associated project costs.

Triple pledge bonds are key to the transition to stand-alone revenue financings: They incorporate the discipline of a contractual rate covenant with the low cost of a general obligation bond. In this financing, the state has contractually pledged to set toll rates necessary to generate revenue to cover operations and maintenance, debt service obligations and to fund various reserves. The state also included a debt service coverage provision to ensure the system will be self-supporting and will not negatively impact other transportation projects to be funded with MVFT revenues. In contrast, the Tacoma Narrows Bridge financing has debt service first payable from motor vehicle fuel tax revenues to be reimbursed by toll receipts.

Triple pledge bonds carry the same ratings as other GO bonds and the same associated borrowing costs.

Limited Obligation Bonds

Limited obligation bonds are secured by a dedicated stream of revenues, such as tolls, special taxes, or fees, without the general obligation backing of the state. These bonds typically have lower ratings and higher borrowing costs than general obligation bonds. To date, the state has issued two forms of limited obligation bonds: Federal Highway Grant Anticipation Revenue Bonds (GARVEE) bonds and a Transportation Infrastructure Finance and Innovation Act (TIFIA) bond. The state has authorized the issuance of standalone toll revenue bonds for the SR 520 Corridor Program, but issuance is not anticipated until FY 2014.

Federal Highway Grant Anticipation Revenue Bonds

In 2012 the state issued its first series of Federal Highway Grant Anticipation Revenue Bonds, or GARVEE bonds. GARVEE bonds are payable from and secured solely by pledged federal aid. The state's GARVEE bonds do not carry the state's general obligation pledge.

The state's GARVEE bonds are "direct" GARVEE bonds that pledge Federal-Aid Highway Program (FAHP) funds received by the state from the Federal Highway Administration that are designated for project specific debt service under Section 122 of Chapter 1 of Title 23, United States Code and a Memorandum of Understanding between the Washington State Department of Transportation and the Federal Highway Administration.

Transportation Infrastructure Finance and Innovation Act Bond

The state issued the third series of bonds for the SR 520 Corridor Program in October 2012 in the form of a TIFIA bond. This bond represents a draw-down loan from the Federal Highway Administration and is payable solely from toll revenues. The state does not expect to draw on the loan until 2014.

Short Term Borrowing and Bond Anticipation Notes

The State Constitution permits the state to issue certificates of indebtedness to meet temporary deficiencies in the state treasury, but also requires that these certificates be retired within 12 months after the date of issue. The state has not issued certificates of indebtedness since 1983 and at present does not anticipate any short-term borrowing.

The state is also authorized to issue temporary notes in anticipation of the sale of bonds. The state has not issued bond anticipation notes since 1981 and does not plan to issue bond anticipation notes.

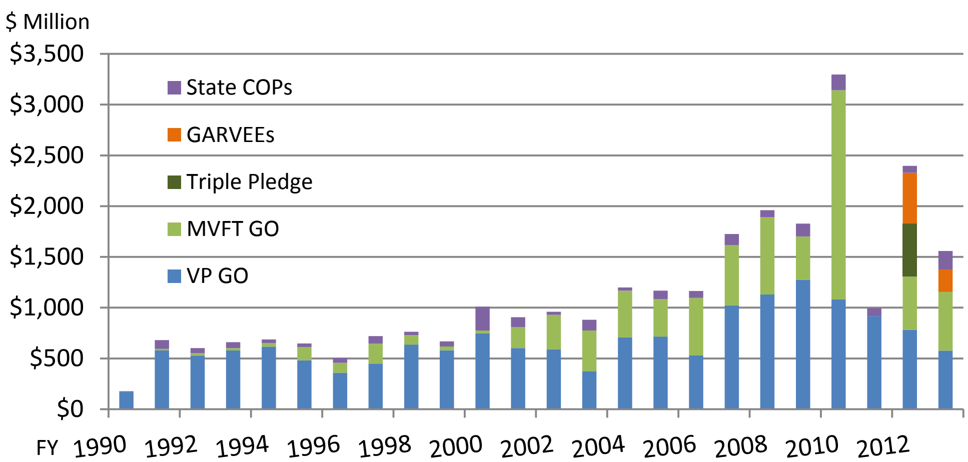
Certificates of Participation

In addition to issuing bonds, the state often borrows funds to acquire real estate and equipment (real and personal property) by issuing certificates of participation (COPs). Equipment COPs finance vehicles, computer hardware and office equipment. Real estate COPs are used to finance new construction and facility improvements as well as the acquisition of land or buildings. COPs are not backed by the full faith and credit of the state and do not meet certain legal definitions of state debt.

DEBT PORTFOLIO OVERVIEW

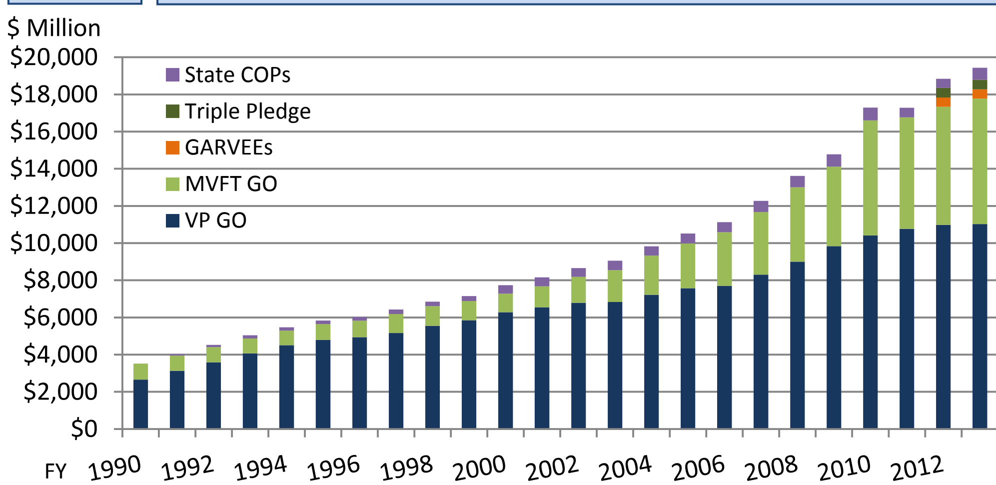
Figure 3 presents a consolidated view of general obligation bonds, limited obligation bonds, and state COPs issued since 1990. Figure 4 displays outstanding general obligation and limited obligation bonds from 1990 to 2012. As shown in Figure 5, Washington's debt outstanding totaled $19.1 billion in December 2012, $18.0 billion of which is general obligation bonds.

Figure 3. **General and Limited Obligation Bond and COP Issuance 1990-2013***



*New money only. In 2010, the state accelerated FY 2011 MVFT GO sales in the Build America Bond program. FY 2013 estimate.
Source: Office of the State Treasurer

Figure 4. **General and Limited Obligation Bonds and COPs Outstanding 1990-2013***



*FY 2013 estimate.
Source: Office of the State Treasurer

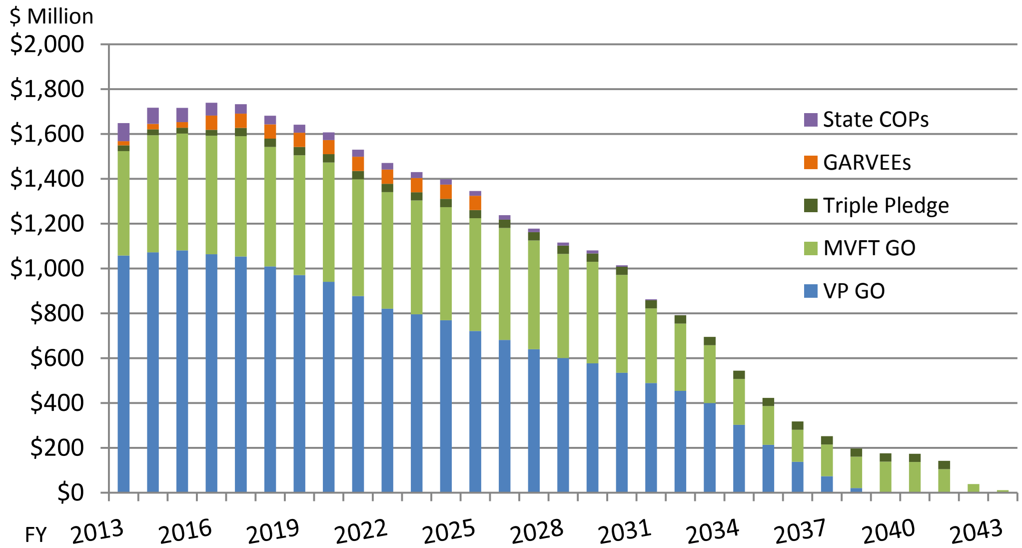
Figure 5. Debt Outstanding

$ Thousand

	6/30/2011	6/30/2012	12/31/2012
General Obligation Bonds			
Various Purpose	10,763,996	10,980,895	11,018,933
Motor Vehicle Fuel Tax	6,004,454	6,353,056	6,459,111
Triple Pledge Bonds	-	518,775	518,775
Subtotal	16,768,451	17,852,726	17,996,819
Limited Obligation Bonds			
Federal Highway Grant Anticipation Revenue Bonds (GARVEEs)	-	500,400	500,400
Certificates of Participation – State *	549,498	527,973	572,224
Total	17,317,949	18,881,099	19,069,443

*Also includes capital leases totaling $5.9 million in FY 2011 and $7.2 million in FY 2012.
Source: Office of the State Treasurer, CAFR

Figure 6. Debt Service on General and Limited Obligation Bonds and State COPs (on debt outstanding as of 6/30/12)



Source: Office of the State Treasurer

Annual debt service on outstanding general obligation bonds is estimated to reach $1.55 billion in FY 2013; an additional $18.3 million in GARVEE payments and in $81.1 million in state lease payments are projected to be made in the same year (see Figure 6).

3. Credit Ratings

Credit ratings are relative measures of risk. They summarize a rating agency's assessment of an issuer's ability and willingness to pay its debt. A credit rating is an indication of a rating agency's opinion about an issuer's vulnerability to default – not unlike credit scores used to make similar assessments of consumers and businesses.

Ratings are one of the primary tools the investor community uses to benchmark one issuer's credit against another's. As a result, credit ratings have a significant impact on an issuer's cost of borrowing. Lower-rated borrowers pay higher interest rates and are more vulnerable to reduced market access in times of market volatility.

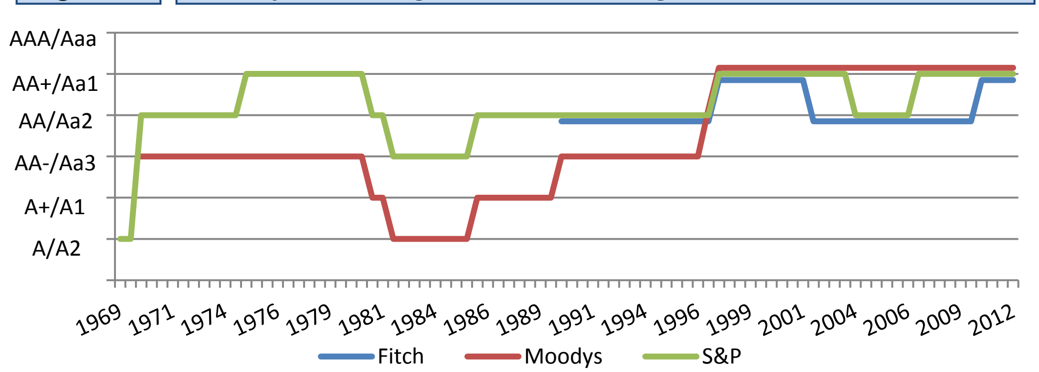
The figure below shows the history of Washington's general obligation ratings from each rating agency. An excellent credit rating is hard to maintain and can be even harder to obtain after a downgrade. Historically, it has taken three to four years before the state's rating rebounds after a downgrade. This may mean not only higher borrowing costs for the state, but also higher costs for school districts across the state that rely on the School Bond Guarantee Program (see Figure 26) and for local participants in the COP program.

As of December 2012, all of the state's general obligation bonds (Various Purpose General Obligation bonds, Motor Vehicle Fuel Tax General Obligation bonds, and triple pledge bonds) are rated "AA+"(negative outlook) by Fitch, "Aa1" (negative outlook) by Moody's Investor Services, and "AA+" (stable outlook) by Standard and Poor's (S&P).

As of December 2012, the state's GARVEE bonds are rated "Aa3" (negative outlook) by Moody's Investor Services and "AA" (negative outlook) by S&P.

As of December 2012, the state's COPs are rated "Aa2" (negative outlook) by Moody's Investor Services; some issues also carry a rating of "AA" (stable outlook) from S&P.

Figure 7. **History of Washington State GO Ratings 1969-2012**



4. Bonds: Issuance, Debt Service and Amortization

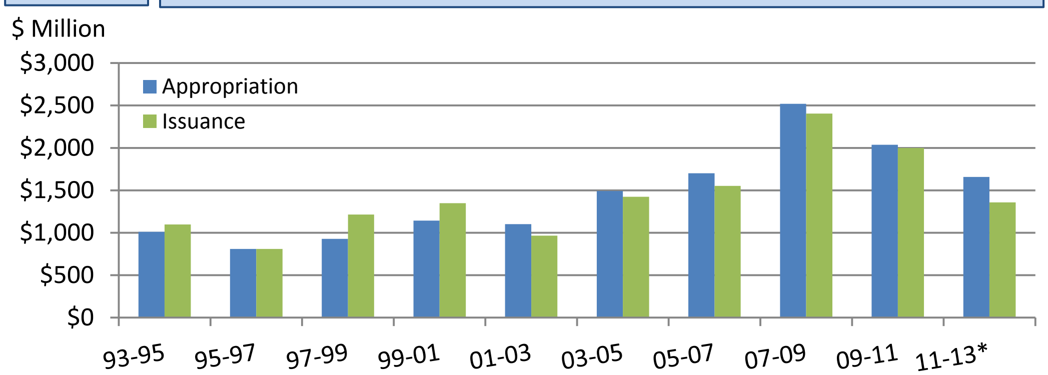
Issuance Trends

Annual issuance of state bonds has increased significantly since 1990 to meet capital needs related to policy decisions, regulatory requirements, aging infrastructure and the state's growing population. Washington's population growth – reflecting a combination of net migration and natural increase – has driven demands for added facilities, particularly for public schools, higher education, state institutions and transportation.

Various Purpose General Obligation Bonds

The Legislature and the Governor approve bond appropriations for specific projects and programs in biennial capital budgets. Although the state's capital budgets expire at the end of the biennial period, re-appropriations for ongoing projects may be requested in subsequent budgets. Various Purpose GO bonds are issued in step with these trends in appropriations, although the timing of bond sales is more finely attuned to actual ongoing project cash flow requirements. Figure 8 shows the close alignment between biennial new appropriations and VP GO issuance.

Figure 8. **Capital Budget VP GO New Bond Appropriations and Issuance 1993-95 to 2011-13**



*Estimate.
Source: Office of the State Treasurer, Legislative Evaluation and Accountability Program (LEAP)

Figure 9 displays capital budget appropriations, which more completely describe the use of bond proceeds. It also notes the portion of the capital budget funded with bond proceeds. This ratio has fluctuated in recent years. During the 2009-11 biennium, funds were shifted from the capital budget to cover operating expenses, resulting in more reliance on bond financing. In the 2011-13 biennium, bonds proceeds are expected to fund less than half of the capital budget.

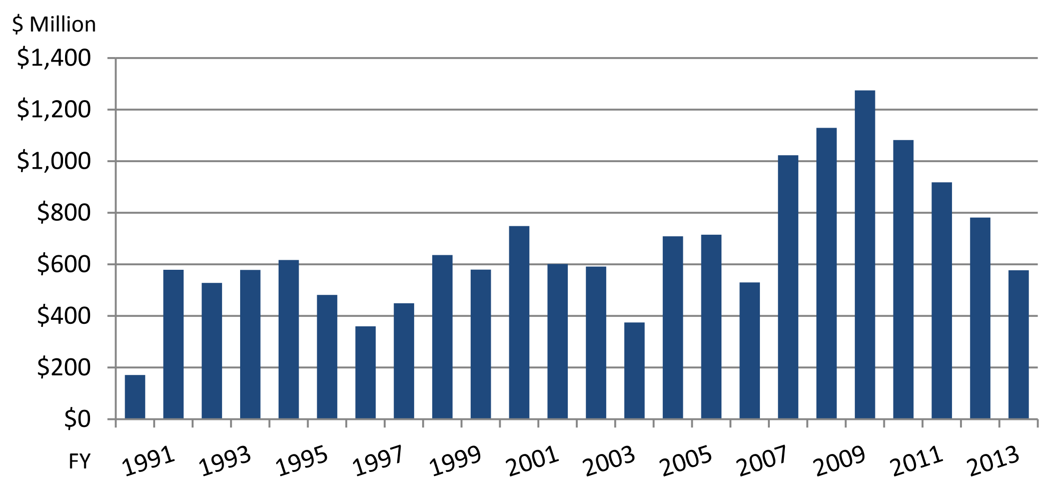
Figure 9. **Capital Budget Appropriations 1991-93 to 2011-13**

$ Million	1991-1993	1993-1995	1995-1997	1997-1999	1999-2001	2001-2003	2003-2005	2005-2007	2007-2009	2009-2011*	2011-2013
Bond Appropriations											
Governmental Operations	182	121	103	110	143	276	200	225	613	469	340
Human Services	224	105	191	240	175	138	252	336	224	64	104
Natural Resources	160	136	70	84	107	161	183	248	528	343	370
Higher Education	379	529	342	447	617	467	689	696	793	505	402
K-12 Education	314	119	104	49	101	59	167	197	361	656	442
Total Bond Appropriations	1,260	1,011	809	929	1,143	1,102	1,491	1,701	2,519	2,037	1,658
Other Funds Appropriated	625	701	818	1,045	1,364	1,539	1,485	1,853	1,736	1,297	2,047
Total Appropriations	1,885	1,712	1,627	1,974	2,508	2,641	2,977	3,554	4,255	3,334	3,705
% Funded by Bonds	**66.8%**	**59.1%**	**49.7%**	**47.1%**	**45.6%**	**41.7%**	**50.1%**	**47.9%**	**59.2%**	**61.1%**	**44.8%**

* 2009-11 total appropriations do not include Federal ARRA funds.
Source: Legislative Evaluation & Accountability Program (LEAP) Committee

Figure 10 shows that issuance of VP GO bonds increased sharply in FY 2007, peaking at $1.27 billion in FY 2009 before declining steadily over the following few years. In FY 2013, issuance is expected to total approximately $575 million, in line with average issuance over the previous two decades. As noted above, the reliance on bond financings has fluctuated with state revenues - both as the size of the capital budget has varied and as changing state revenues have expanded or constrained debt capacity. (See Section 6.)

Figure 10. **Issuance of Various Purpose General Obligation Bonds 1990-2013***



*New money only. FY 2013 estimate.
Source: Office of the State Treasurer

Transportation Bonds: Motor Vehicle Fuel Tax General Obligation Bonds and Limited Obligation Bonds

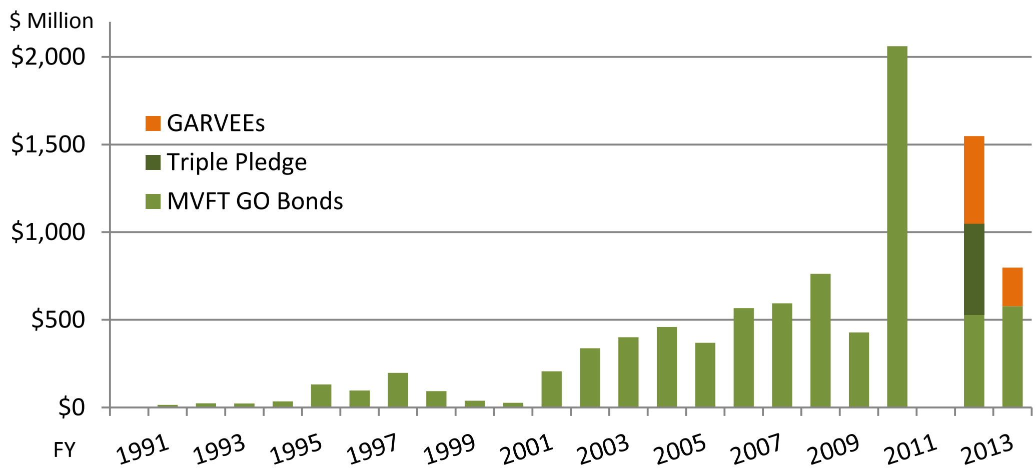
MVFT GO bonds allow the state to initiate construction and highway improvement projects sooner than would otherwise be possible by borrowing against forecasted future motor vehicle fuel tax revenues. Although these revenues have risen over the past decade with increased usage and a series of increases in gas taxes, more recent projections, after downward revisions, show low to no growth consistent with national trends.

Since 2003 the state has increased the gas tax by 14.5 cents per gallon – first by 5 cents in 2003 with the Transportation 2003 (Nickel Act), then by another 9.5 cents in 2005 with the Transportation Partnership Act – to pay for the replacement, improvement, and expansion of transportation infrastructure. Both of these increases were intended to fund specific capital projects.

Figure 11 shows the irregular pattern in recent MVFT GO new money issuance. Issuance spiked to $2.1 billion in 2010 as the state accelerated borrowing to take advantage of the low subsidized interest rates available in the federal Build America Bond (BAB) program which ended in December 2010. No MVFT GO bonds were issued in 2011.

The state issued $518.8 million triple pledge bonds and $500.4 million GARVEE bonds in FY 2012 to fund a portion of the SR 520 Corridor. A second GARVEE issue is anticipated in the spring of 2013. The $300 million TIFIA bond closed in 2012, but is not shown in Figure 11 as no draws are expected until 2014.

Figure 11. **Issuance of Motor Vehicle Fuel Tax General Obligation, Triple Pledge, and GARVEE Bonds 1990-2013***



*New money only. FY 2013 estimate.
Source: Office of the State Treasurer

Reimbursable General Obligation Debt

Approximately $1.4 billion of the general obligation debt is reimbursable and is effectively paid from funds outside of general state revenues and motor vehicle fuel tax receipts (See Figure 12). One example is MVFT GO bonds issued to finance the Tacoma Narrows Bridge bonds. Although these bonds are payable from motor vehicle fuel tax revenues, payments are then reimbursed by toll revenues from the facility. In fact, state statute requires that tolls be set to generate revenues sufficient to cover debt service.

Another example of reimbursable debt is the nearly $100 million of general obligation bonds authorized by the state in 2008 to finance capital expenditures on skills centers for career and technical education and school construction. Debt service on these bonds is paid from the investment income on the Permanent Common School Fund.

Figure 12. GO Debt Outstanding Net of Reimbursables

$ Thousand

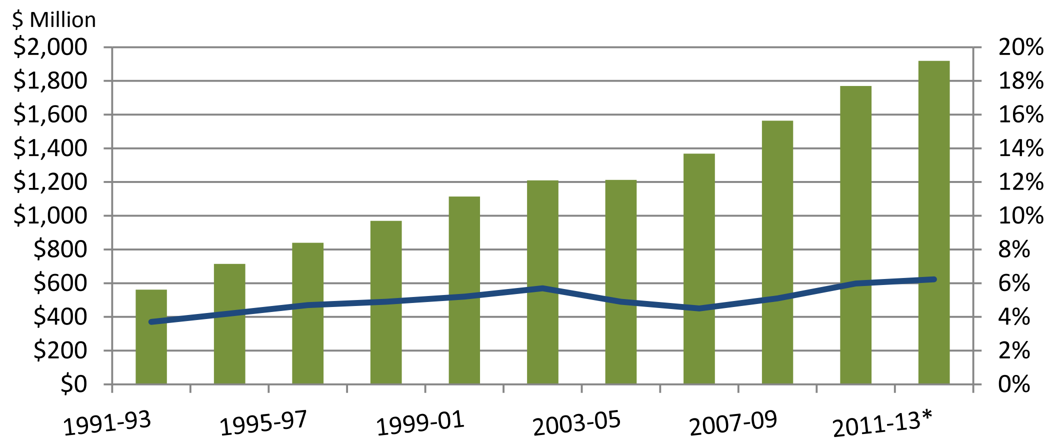
	6/30/2011	6/30/2012	12/31/2012*
Various Purpose	10,763,996	10,980,895	11,018,933
Reimbursables	(928,325)	(856,447)	(835,564)
Motor Vehicle Fuel Tax	6,004,454	6,353,056	6,459,111
Reimbursables (TNB)	(596,614)	(567,176)	(553,561)
Total	15,243,511	15,910,328	16,088,919

*Estimate
Source: Office of the State Treasurer

DEBT SERVICE

In the 2011-13 biennium, debt service on VP GO bonds is expected to total $1,919 million. This represents over 6.2 percent of general fund-state revenues for the biennium. This share has steadily increased in the past several years from the 4.5 percent low in the 2005-07 biennium. As can be seen in Figure 13, VP GO debt service has historically accounted for less than 5 percent of general fund revenues over most of the past 20 years.

Figure 13. **VP GO Debt Service: 1991-93 to 2011-13**
Biennial Totals and as Percent of General Fund-State Revenues



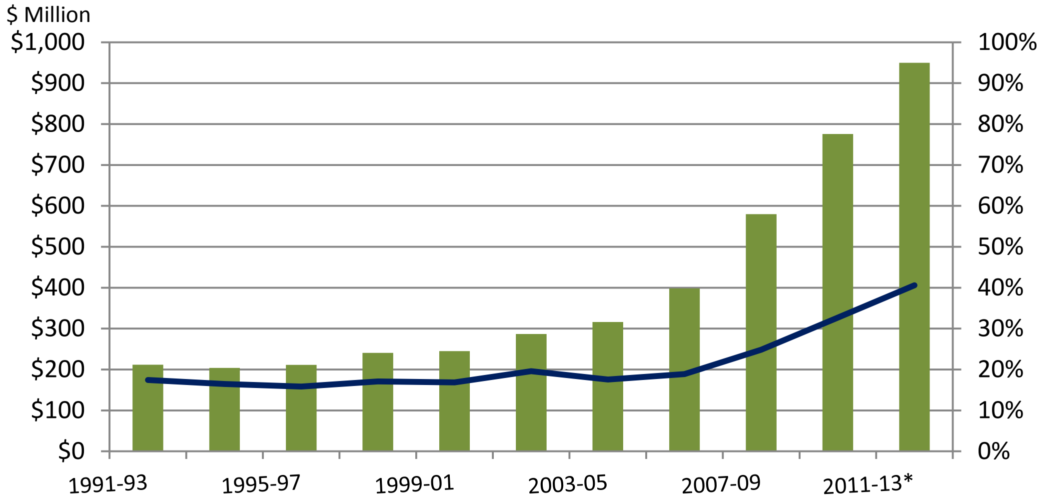
*Budgeted
Source: Office of Financial Management, Office of the State Treasurer

As shown in Figure 14, debt service on MVFT GO bonds represents a significantly larger portion of state excise taxes on motor vehicle and special fuels, the source of repayment. Debt service on MVFT GO bonds has doubled from less than 20% in 2005-07 biennium to approximately 40% in the current biennium. Debt service is shown for all bonds pledging MVFT revenues and excludes federal subsidies related to Build America Bonds.

Long-term capital plans for transportation have assumed that revenues from the 2003 and 2005 tax packages would likely be fully leveraged, i.e. that these tax revenues would eventually be fully committed to debt service and not available for current capital or operating expenditures. At present, 88 percent of the state's share of the gas tax revenues from the 2003 package is dedicated to debt service payments. That number is expected to grow to 97 percent by the end of the 2011-13 biennium. Approximately 52 percent of the state's share of the gas tax revenues from the 2005 package is projected to be committed to debt service by the end of the 2011-13 biennium. (See also Figure 24.)

Note that while motor vehicle fuel tax revenues back the debt service on MVFT GO bonds, in recent years they have represented only about half of transportation revenues available for capital and operating expenditures (excluding bond proceeds). Other state sources such as licenses, permits, fees and tolls account for another 25 percent with the remainder largely provided by federal funds. (See Figure 24.)

Figure 14. **MVFT GO Debt Service: 1991-93 to 2011-13**
Biennial Totals and as Percent of Adjusted Gross Fuel Tax Revenues



*Estimate. Debt service covers all bonds pledging MVFT revenues including triple pledge bonds.
Source: Office of the State Treasurer, Transportation Revenue Forecast Council (November 2012 Forecast)

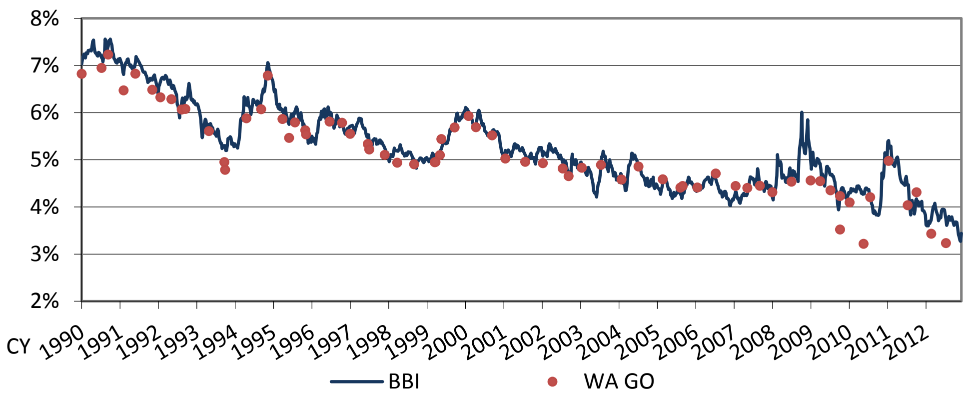
BORROWING COSTS

Borrowing costs are influenced by a number of factors including the state's credit rating, the security pledge, general market trends, supply and demand characteristics, the structure of the repayment schedule, and call provisions. The state's lowest cost of funds is typically achieved through tax-exempt general obligation bonds. In recent years, interest rates on VP GO, MVFT GO, and triple pledge borrowings have been nearly identical.

Figure 15 below shows a 20-year history of the True Interest Cost (TIC) on new state general obligation bonds in relation to market interest rates which have declined markedly over the period. For simplicity, market rates are represented by the Bond Buyer 20-Year Index.

One estimate of the state's cost of funds is the weighted average of the initial TIC on all outstanding new issues of fixed-rate tax-exempt general obligation bonds (including BABs, discussed in Section 4). This calculation produces a cost of funds of 4.22 percent as of December 2012. Note that approximately 23 percent of the debt portfolio is noncallable and cannot be refunded.

Figure 15. **GO Borrowing Costs vs. 20-Year Bond Buyer Index 1990-2012**



Source: Office of the State Treasurer

Impact of Higher Interest Rates on Annual Debt Service

Figure 16 shows the impact on annual debt service if market interest rates were to rise. For example, if the state's borrowing rate were to increase from 4 percent to 5 percent, the state would pay an additional $694,000 in annual debt service on a $100 million bond issue, or $17.3 million over the life of the borrowing.

Figure 16. **Impact of Interest Rates: $100 Million Bond, 25-Year Level Debt Service**

Assumed Interest Rate	4%	5%	6%
Average Annual Debt Service	$6,401,296	$7,095,110	$7,822,588
Total Debt Service	$160,032,400	$177,377,750	$195,564,700

Source: Office of the State Treasurer

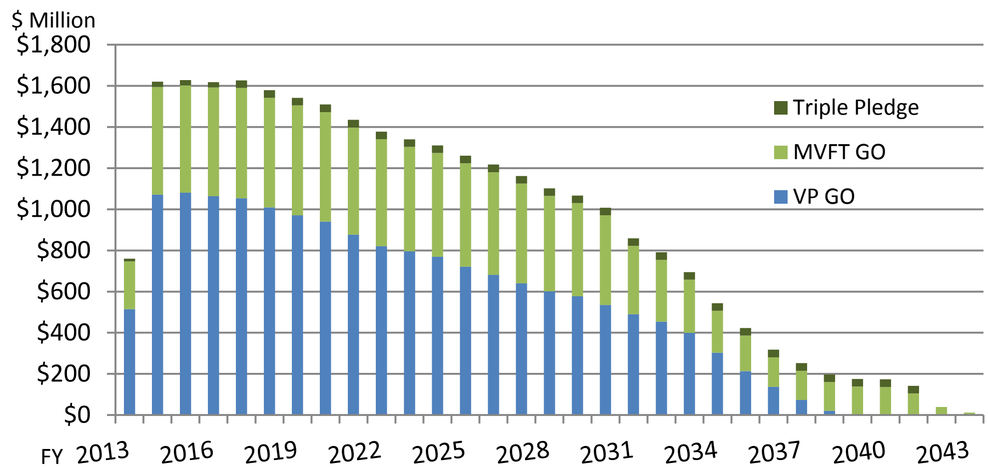
Amortization Schedule

The state has traditionally issued VP GO bonds with final maturities of 25 years, and in recent years, MVFT GO bonds and triple pledge bonds have been issued with 30-year final maturities in line with the expected life of transportation infrastructure. The GARVEE bonds issued in 2012 have a much shorter 12-year term.

The state's borrowings have historically been structured with level debt service; much like a standard 30-year home mortgage, the annual payments of principal and interest are approximately equal over the life of the borrowing. The result is a declining overall debt service amortization structure. Each new debt issue adds incremental debt service onto each year between the sale date and the final maturity. Accordingly, the structure of the state's outstanding general obligation debt has the shape shown in Figure 17 below.

Level debt service not only shares the cost of infrastructure investment equally over time, it also keeps borrowing costs down. Structuring bonds with escalating debt service increases interest costs. For example, if debt service on a 25-year $100 million borrowing in the current market were not level, but instead increased at a 2 percent annual rate, the state would pay an additional $9.6 million in interest payments over the life of the bonds. Approximately half of the state's GO debt will be repaid in 2022, or about 10 years.

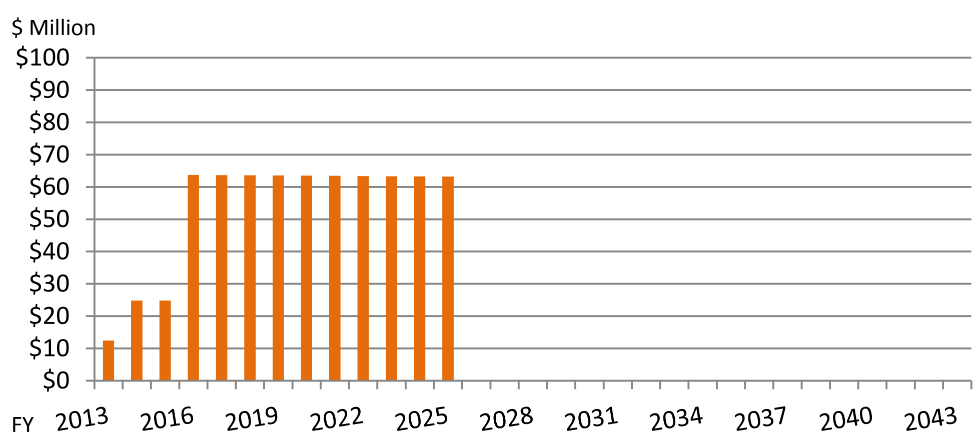
Figure 17. **Total GO Bond Debt Service: Principal and Interest Due 2013-2043**



Source: Office of the State Treasurer - due on debt outstanding as of 12/31/12

The amortization schedule for the 2012 GARVEE bonds is much shorter as the borrowing is fully repaid by 2025. As shown in Figure 18, debt service on this borrowing is level from the expected end of construction in FY 2016 through the final maturity. In the first three years, most federal funds allocated to the project are spent directly on construction. Debt service in this period only includes interest payments.

Figure 18. **GARVEE Debt Service: Principal and Interest Due 2013-2043**



Source: Office of the State Treasurer - due on debt outstanding as of 12/31/12

5. Certificates of Participation: Issuance, Lease Payments and Amortization

The state often borrows funds to acquire real estate and equipment (real and personal property) by issuing certificates of participation (COPs). In this type of financing, the state leases property to a designated non-profit organization (without transferring ownership) and then makes periodic payments to lease the property back over the life of the financing. Multiple financings are often pooled together to achieve economies of scale in borrowing and issuance costs.

COPs are not backed by the full faith and credit of the state. Instead, each agency pledges its appropriation from the state. In practice, most state agencies, particularly community and technical colleges, rely on revenue sources such as student fees that are not considered general state revenues to make lease payments. In line with a State Finance Committee policy, COPs are to be used solely to finance property, including improvements. Moreover, the property must be of a nature that it could be relinquished if the Legislature were to choose not to appropriate funds to make the relevant lease payments. The policy further advises that care should be taken so that financing contracts are not used to avoid the constitution's debt limitation.

COPs are subject to nonappropriation risk and to across-the-board cuts authorized by the Governor. The risk of non-appropriation is mitigated by the lump-sum nature of appropriations to each state agency. Non-appropriation would require specific statutory language by the legislature. Accordingly, COPs typically receive a rating one notch below that of general obligation debt.

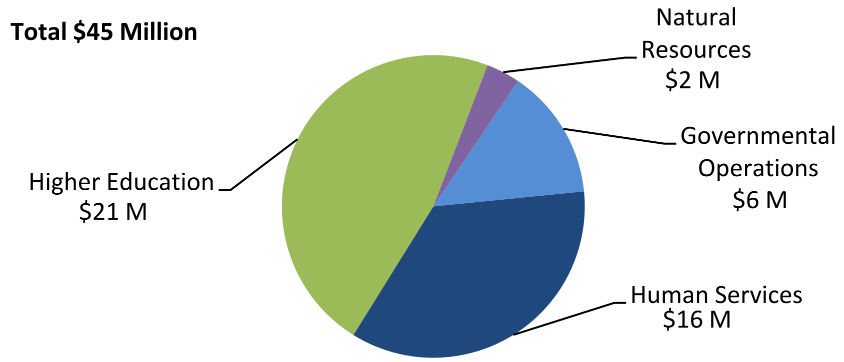
State COP borrowings

State real estate acquisitions financed with COPs must be authorized by the Legislature, typically in the Capital Budget. Most state equipment acquisitions financed with COPs do not require legislative authorization. However, it is the policy of the Office of the State Treasurer to require prior legislative approval for state agency financing contracts used to finance major acquisitions of personal property.

Approximately $45 million state agency real estate COPs were authorized by the Legislature in the 2011-13 Capital Budget. Nearly half are for higher education projects. In addition, an estimated $147 million in state agency equipment COPs are expected to be issued over the 2011-13 biennium.

COPs are generally issued with 20-year maturities for real estate projects and 10-year maturities for equipment projects, spreading the cost over the useful life of the assets. As of December 31, 2012, outstanding state COPs totaled $572 million.

Figure 19. **2011-13 State Real Estate COP Authorizations**



Source: Legislative Evaluation & Accountability Program (LEAP) Committee

Local government participation in the state COP program

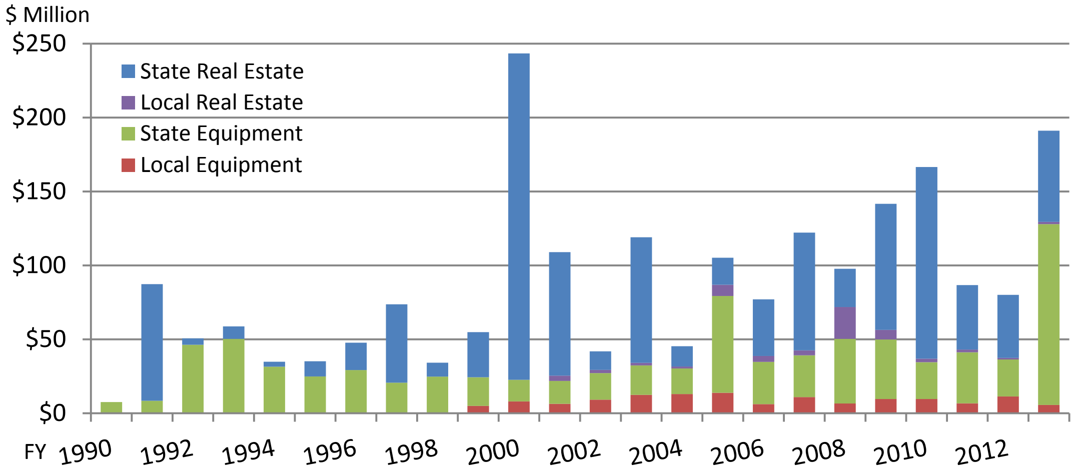
Local governments can borrow to acquire real estate or equipment through the state's COP program by using the Local Option Capital Asset Lending Program (LOCAL). This program lets local governments borrow at the state's rates and benefit from economies of scale. LOCAL borrowing must be supported by a local government general obligation pledge and must receive credit approval from the Office of the State Treasurer.

Local government leases financed by certificates of participation through the LOCAL program are contingent obligations of the state. If a local government fails to make its lease payment, the State Treasurer must make the payment on behalf of that local government (but will then withhold that amount from that local government's state revenue sharing distribution). Local government participation in this program is estimated to total $17 million in the 2011-13 biennium.

COP Issuance

As noted above, COP issuance is much smaller than bond issuance, averaging approximately $100 million annually from 2002 to 2012. State real estate financings increased in recent years, largely to finance the expansion of community colleges, but have since declined. State equipment financings are expected to increase in FY 2013 due primarily to two large IT projects for the community colleges and the Washington State Patrol.

Figure 20. **COP Issuance: State and Local Real Estate and Equipment***

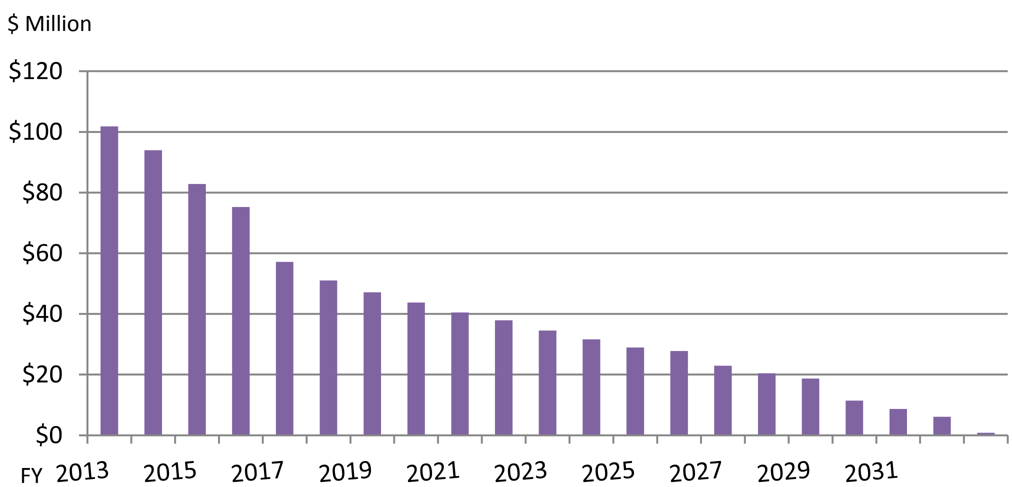


*New money only. FY 2000 includes a $185 million issue for the Washington Convention and Trade Center that has subsequently been defeased. FY 2013 estimate.
Source: Office of the State Treasurer

COP Amortization Schedule

Figure 21 shows lease payments on outstanding COPs. Like GO debt service, COP lease payments on new issues are spread evenly over the life of each financing. The final maturity of each financing is closely linked to the asset being financed. Approximately half of outstanding COPs will be paid off in about 5 years. Lease payments on outstanding state real estate and equipment COPs totaled $88 million in 2012.

Figure 21. **COP Debt Service: Principal and Interest Due on Debt Outstanding**



Source: Office of the State Treasurer - outstanding as of 12/31/12

6. Constraints on Debt Issuance

Constitutional and statutory Debt Limits

The Washington State Constitution places a firm limit on the amount of debt service the state can pay on certain forms of debt. Beginning in 1889, the state had a fixed debt limit of $400,000. In 1972, this was replaced with a limit on annual debt service (payments of principal and interest) comparing the maximum annual debt service on certain forms of debt to a percentage of the 3-year historical average of the state's undedicated general revenues. More specifically, the Constitution requires that maximum annual payments of principal and interest on all debt subject to this limit may not exceed 9 percent of the average of the prior 3 years' general state revenues.

Under the Constitution, "general state revenues" includes all state money received in the state treasury, with the exception of: (1) fees and revenues derived from the operation of any undertaking, facility, or project; (2) moneys received as gifts, grants, donations, aid, or assistance when the terms require the application of such moneys otherwise than for general purposes of the state; (3) retirement system moneys and performance bonds and deposits; (4) trust fund moneys, including moneys received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness

Legislation adopted in 2011 directs that the Committee set a more restrictive working debt limit for budget development purposes. The working limit phases down to 7.75 percent by Fiscal Year 2022, starting in Fiscal Year 2016. The Committee may adjust that working debt limit due to extraordinary economic conditions.

In November 2012, voters approved an amendment to the constitutional limit specifying that (1) beginning July 1, 2014, general state revenues will be averaged over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of general state revenue will be expanded to include property taxes received by the state; and (3) the 9.0 percent constitutional limit on debt service will be reduced to 8.0 percent by July 1, 2034 (in downward steps to 8.5 percent starting July 1, 2014, to 8.25 percent starting July 1, 2026, and finally to 8.0 percent starting July 1, 2034). The amendment was intended to stabilize and smooth the state's ability to borrow; gradually reduce the state's long-term debt burden; and lower the share of the operating budget used to pay principal and interest on debt. In some years, the new constitutional limits are anticipated to be more restrictive than the previously approved statutory working debt limits.

Exemptions from Constitutional Debt Limitation

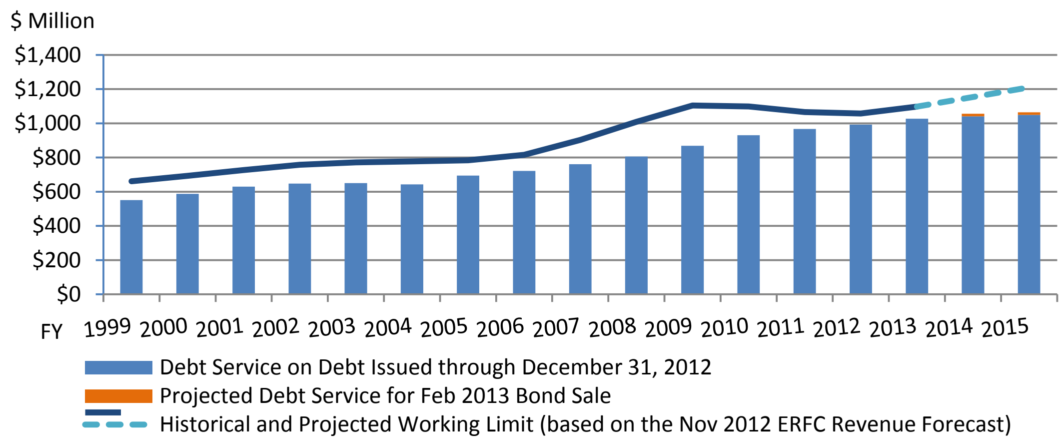
Article VIII of the Constitution excludes some types of debt from the debt limit calculations, most notably: debt payable from motor vehicle fuel taxes, debt payable from license fees on motor vehicles, debt approved by both the Legislature and a majority of the voters in a general or special election, and all forms of non-recourse revenue debt. Accordingly debt service on nearly all VP GO debt is subject to the constitutional constraint.

Estimated Available Debt Capacity

Figure 22 shows annual debt service on debt subject to the constitutional debt limit from FY 1999 through FY 2016 projections. This is charted against historical and projected values of the working limit on debt service. Projected general state revenue forecasts are based on the Economic and Revenue Forecast Council (ERFC) forecast of November 2012.

The gap between debt service and the working limit on debt service illustrates available debt capacity. This differential was narrowest in 2012 and peaked in 2009, in both cases reflecting the lagged growth in general state revenues. In the coming years, the amendment to the constitutional debt limit is expected to produce a debt limit which is more stable and predictable.

Figure 22. **Debt Service Subject to the Constitutional Limit vs. Working Limit**



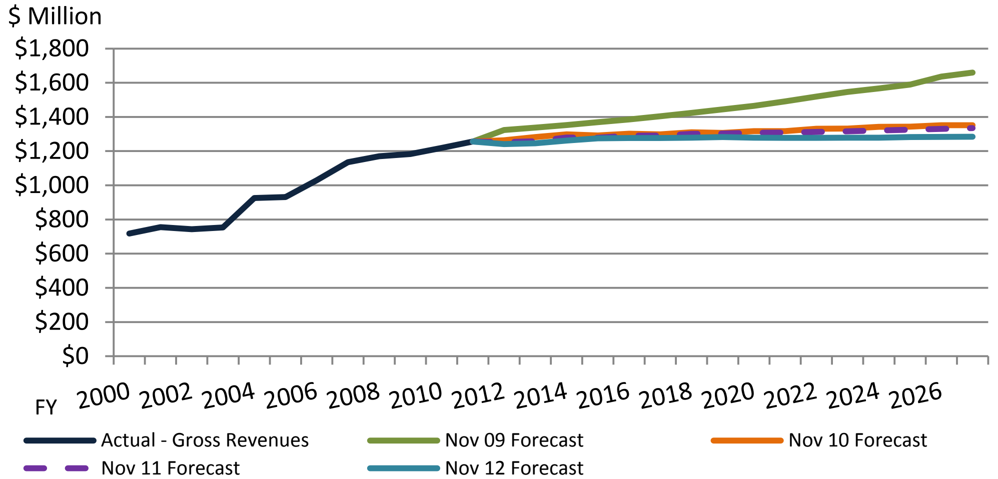
Source: Office of the State Treasurer, Economic and Revenue Forecast Council

Constraints on Motor Vehicle Fuel Tax General Obligation Bonds

As noted above, MVFT GO bonds are not subject to the constitutional debt limit. However, issuance is constrained in practice by current and projected tax revenues from motor vehicle and special fuels taxes (MVFT revenues) available for the payment of debt service. These tax revenues, projected quarterly by the Transportation Revenue Forecast Council, are the first source of repayment for all MVFT GO bonds.

Repeated downward revisions of projected MVFT revenues in recent years led to a November 2010 revision of the methodology used to forecast Washington fuel consumption statewide. As seen in Figure 23, the current methodology forecasts mostly flat long term fuel consumption.

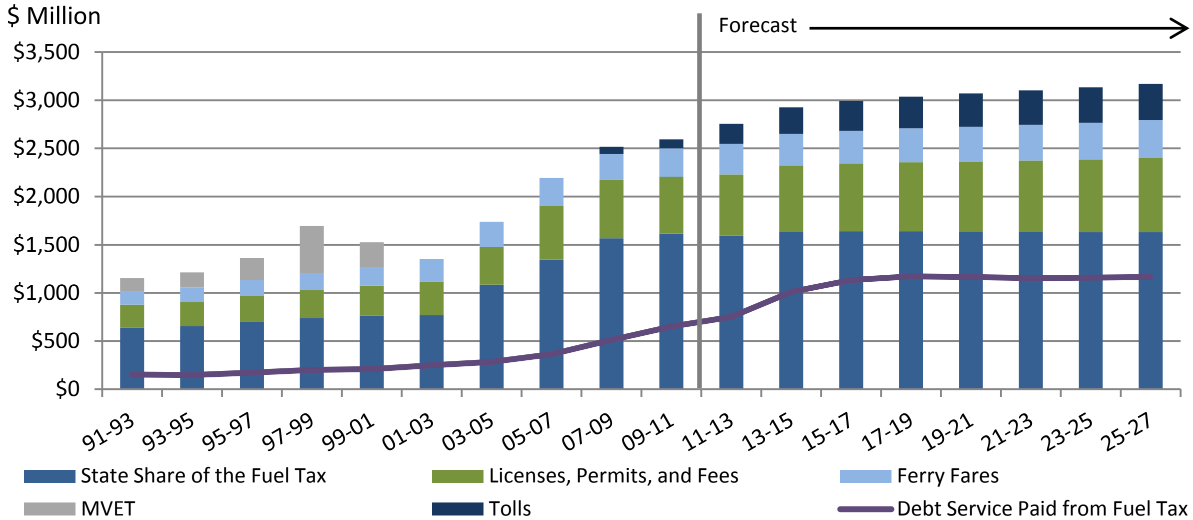
Figure 23. Gross MVFT Revenue: Actual and Forecasted



Source: CAFR, Transportation Revenue Forecast Council

Figure 24 shows debt service paid from motor vehicle fuel tax revenues against the multiple state revenue sources provided to the Washington State Department of Transportation (WSDOT). Debt service projections shown reflect commitments on outstanding debt plus new issuance to meet the estimated cash flow requirements for the 2012 Enacted Transportation Budget and Legislative financial plan. The debt service schedule shown in this Figure excludes debt service paid first from toll revenues (SR 520 Corridor) as well as debt service reimbursed to WSDOT from toll revenues (Tacoma Narrows Bridge). As shown, this "net" measure of MVFT debt service against the state share of fuel tax revenues reaches approximately 47 percent 2011-13 biennium. This ratio is projected to increase to approximately 70 percent by the 2015-17 biennium. Alternatively stated, coverage (the ratio of state fuel tax revenues to debt service) is projected to decline from 2.12 in the 2011-13 biennium to 1.40 in the 2015-17 biennium.

Figure 24. **MVFT GO Debt Service vs. WSDOT State Revenues 1991-93 to 2025-27**



Debt service projections are based on the 2012 Enacted Transportation Budget and Legislative financial plan.
Source: Washington State Department of Transportation

CONSTRAINTS ON TRIPLE PLEDGE BONDS

Issuance of triple pledge bonds – payable first from toll revenues, second from MVFT revenues and third backed by the general obligation pledge of the state – is constrained in two ways. First, as these bonds pledge MVFT revenues, debt service "counts against" MVFT revenues. More importantly, issuance of triple pledge bonds is constrained by the rate covenants and additional bonds tests contractually established in the master bond resolution. This legal framework specifies that certain financial thresholds - related to the ratio between net toll revenues on the SR 520 Corridor and maximum annual debt service - must be met before any additional bonds at one of the four specified tiers can be issued.

CONSTRAINTS ON GARVEE BONDS

Similarly, the issuance of GARVEE bonds is constrained by additional bonds tests governing bonds payable from pledged federal transportation funds. Pledged funds (or more specifically obligation authority) received during one of the two prior federal fiscal years must be at least 3.5 times maximum annual debt service on all GARVEE bonds. Moreover, the State Finance Committee has adopted a policy which increases this ratio to 3.75, further restricting the percentage of federal transportation funds allocated to the payment of debt service. This cushion protects the state from appropriation risk and increases the likelihood that federal funds will remain available to support the state's ongoing preservation and improvement program.

Given these constraints, it is estimated that the state could potentially issue an additional $550 to $650 million GARVEE bonds, depending on interest rates. It is important to note that at present,

the SR 520 Corridor Program is the only program of projects for which the Legislature has authorized issuance of GARVEE bonds. Current authorizations provide only for "Direct"

GARVEE bonds that pledge federal transportation funds that are designated for project specific debt service under Section 122 of Chapter 1 of Title 23, United States Code and a Memorandum of Understanding between WSDOT and the Federal Highway Administration. GARVEE capacity is also likely to be restricted by uncertainty in the level of future federal aid received by states as Congress has not enacted a long term transportation act.

Constraints on Certificates of Participation

Certificates of participation are not subject to the constitutional debt limit as these obligations do not constitute debt as defined by the Constitution. Budgetary consideration is given to future annual appropriations necessary for each real estate or equipment financing.

7. Other State Obligations

A broader presentation of financial liabilities includes contingent obligations, state contractual obligations and certain revenue bonds. Contractual agreements include the state's public employee pension plans and its Guaranteed Education Tuition (GET) savings program. Other Post-Employment Benefits (OPEBs) are also discussed below, although they are not contractual obligations of the state.

Contingent Obligations

An expanded statement of the state's financial liabilities also includes contingent obligations, or obligations the state may face in the event that other governmental entities are not able to meet their financial commitments. These primarily include local government leases financed through the state's COP program and voter-approved school district bonds supported by the state School Bond Guarantee Program.

While neither of these programs involves state debt, they have provided significant value to other government entities. Since its inception in 2000, the School Bond Guarantee Program has provided school districts with an estimated savings in borrowing costs of $153 million over the life of the bonds issued under the program, or $9 million annually.

The statement of contingent liabilities in Figure 25 shows the full amount of debt on which the state carries a contingent obligation. While no attempt is made here to determine the likelihood of the state being required to make payments on these debts, it is important to note that the state has never been called upon to pay debt service on any school debt or on any local government lease financed by a COP. Even if the state does step in to make up a temporary shortfall, the debt remains the responsibility of the local government.

Figure 25. Contingent Obligations

$ Thousand

	6/30/2011	6/30/2012	12/31/2012*
Certificates of Participation - LOCAL	83,901	83,167	82,270
School Bond Guarantee Program	8,350,546	8,333,934	8,327,550
Total	8,434,447	8,417,101	8,409,820

*Estimate
Source: Office of the State Treasurer

Other Financial Liabilities

63-20 Revenue Bonds

The state has entered into two long-term leases with separate nonprofit corporations that issued "63-20" lease revenue bonds on behalf of the state. With this type of financing, a non-profit corporation issues bonds on behalf of the state and uses the proceeds to manage the design and construction of a facility. Upon substantial completion of the project, the state leases the facility from the non-profit and these lease payments are pledged to the repayment of the bonds. The state takes title to the property once the bonds have been paid. The state's lease payments are subject to nonappropriation risk and across-the-board cuts by the Governor.

The final maturities on the state's 63-20 financings have been 20 and 30 years. Borrowing costs on both were higher than those on similarly structured COPs.

Figure 26. 63-20 Bonds Outstanding

$ Thousand

	6/30/2011	6/30/2012	12/31/2012*
63-20 Bonds			
Tumwater Office Building	53,925	52,820	51,580
Wheeler Building	305,810	304,510	304,510
Total	359,735	357,330	356,090

*Estimate
Source: Office of the State Treasurer

Pensions

The state administers 13 defined benefit retirement plans, three of which contain hybrid defined benefit/defined contribution options. As of June 30, 2011, the plans covered 502,464 eligible state and local government employees. The most recent actuarial valuation performed by the Washington State Office of the Actuary (dated October 2011) based on valuations shows that the funded status for all the state-administered retirement plans combined as of June 30, 2011 is 101 percent. Two funds – PERS 1 and TRS 1 – are underfunded by approximately $5.5 billion as of June 30, 2011. Approximately $3.0 billion of this liability is the responsibility of the state and the remainder a liability of local governments. Note that assets from one plan may not be used to fund benefits for another plan.

Guaranteed Education Tuition Program

The Washington Guaranteed Education Tuition Program ("GET program") is a 529 prepaid college tuition plan that allows Washington residents or individuals opening accounts for Washington residents to prepay for future college tuition. Individual accounts are guaranteed by the state to keep pace with rising college tuition, based on the highest tuition at Washington's public universities. The after-tax contributions to a GET account grow tax-free and can be withdrawn tax-free when used for eligible higher education expenses. GET funds are held in the state treasury and invested by the Washington State Investment Board.

According to an actuarial valuation, the market value of GET program assets as of June 30, 2010, totaled $1.6 billion, or 86 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $1.9 billion. For the enrollment period ended June 30, 2012, the GET Committee implemented the largest price increase in the program's history. The June 30, 2012, actuarial report performed by the Office of the State Actuary showed program assets of $2.3 billion, or 79 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.9 billion.

OPEBs (Other Post Employment Benefits)

The state provides health care benefits to its retirees through implicit and explicit subsidies. But unlike the state's pensions, both the implicit and explicit subsidies are not contractual obligations to retirees. The state allows retirees not yet eligible for Medicare to use their own money to pay for health insurance at group rates negotiated for public employees. While there is no contractual liability for the state, the inclusion of retirees in this purchasing pool does marginally increases overall insurance rates. The state provides an explicit subsidy to reduce Medicare-eligible retiree Part A and B premiums by an amount determined each year by the Public Employee Benefits Board (PEBB). Like the implicit subsidy, this is also not a contractual obligation because it is annually determined and a specific decision must be made whether or not to include it in each year's state budget.

Obligations of Other State Entities

College and University Revenue Bonds

The state typically issues VP GO bonds or COPs to finance major campus construction projects for the five state universities, the state college and the 34 community and technical colleges. In addition, certain colleges and universities are authorized to issue revenue bonds for the construction of certain types of revenue-generating facilities for student housing, dining and parking. These revenue bonds are payable solely from, and are secured by, revenues derived from the operation of the constructed facilities.

Figure 27. **Higher Education Revenue Bonds Outstanding**

$ Thousand

	6/30/2011	6/30/2012
University of Washington	1,073,369	1,447,953
Washington State University	366,130	430,995
Eastern Washington University	31,720	55,025
Central Washington University	135,430	133,269
The Evergreen State College	5,755	5,360
Western Washington University	79,043	77,423
Total	1,691,447	2,150,025

Source: CAFR, Office of Financial Management

Conduit Issuers/Financing Authorities

Washington State has created four financing authorities that can issue private activity bonds for the purpose of making loans to qualified borrowers primarily for capital acquisitions, construction and related improvements. These bonds are not legal or moral obligations of the state and debt service is payable from repayments of loans for which the bonds were issued. All the financing authorities are financially self-supported and do not receive any funding from the state.

The Washington State Housing Finance Commission issues bonds to finance homeownership assistance, multifamily and senior affordable rental housing, nonprofit facilities, beginning farmer and rancher lands and equipment, and energy-efficiency/renewable energy projects. The Washington Higher Education Facilities Authority finances facility construction, improvements, and equipment for non-profit, independent colleges and universities. The Washington Health Care Facilities Authority finances nonprofit health care facilities and equipment. The Washington Economic Development Finance Authority finances projects primarily related to manufacturing, recycling and waste disposal facilities.

Figure 28. **Conduit Issuer Debt Outstanding**

$ Thousand

	6/30/2011	6/30/2012
Washington Housing Finance Commission	3,736,479	3,622,082
Washington Higher Education Facilities Authority	671,779	674,828
Washington Health Care Facilities Authority	5,300,000	5,425,000
Washington Economic Development Finance Authority	768,613	838,121
Total	10,476,871	10,560,031

Source: CAFR

Tobacco Settlement Securitization

The Tobacco Settlement Authority (TSA) was created solely for the purpose of issuing bonds to securitize a portion of the state's revenue from the tobacco litigation settlement. In 2002, the TSA issued $517 million in bonds and transferred $450 million to the state to be used for increased health care, long-term care, and other programs. The bonds were issued with a TIC of 6.75 percent, approximately 1.50 percent above the state's cost of funds. As of June 2012, $389 million in TSA bonds were outstanding. These bonds are not obligations of the state.

8. Debt Metrics: Comparing Washington with National Medians

Washington is characterized by high income levels, solid population growth, a diverse state economy, and a centralized funding structure. These characteristics provide insight as to why Washington's debt ratios are higher than the national medians and higher than debt ratios in most peer states. They also suggest that Washington's debt affordability will likely improve going forward as income and population gains outpace debt issuance. As noted by Moody's below, the state's historical income gains have tempered debt to personal income ratios, keeping affordability more stable.

Nonetheless, Washington's debt burden places it among the top 10 states in the nation as measured by: debt per capita, debt as a percentage of personal income, debt service as a percentage of governmental expenditures, and debt as a percentage of gross state product. Further, Washington has significant infrastructure needs going forward and will therefore continue to require access to long term funding.

All three rating agencies have noted that the state's debt ratios are higher than those of comparable issuers in the state's rating category. Despite citing the state's debt levels as a potential risk, each rating agency has also recognized that fundamental strengths of the state largely mitigate the above-average debt burden.

Fitch Ratings

> *Washington's debt levels are in the upper moderate range and well above average for a U.S. state, with net tax-supported debt of $18.4 billion equal to 6.1% of personal income. Fitch also notes that Washington debt is almost exclusively GO and that capital needs are substantial, particularly for transportation, and tolling is part of the funding solution. Fitch gives the state credit for its increased focus on debt affordability, including the constitutional amendment that was on the November 2012 ballot to lower the constitutional debt limit.*

Moody's Investor Service

> *"Washington's debt ratios are more than twice Moody's 2011 50-state median level." Moody's also notes that, "Despite the significant increase in total debt outstanding during the previous decade, the*

debt-to-personal income ratio has remained fairly stable due to Washington's strong personal income growth." Moody's states that "the state's debt ratios will likely remain high given continued sizeable borrowing plans, especially for transportation purposes." Moody's also notes Washington's debt affordability and the new constitutional amendment.

Standard and Poor's

"The state's direct tax supported debt burden (GO and appropriation-backed) is moderately high, at $2,776 per capita (based on U.S. Census 2011 state population), 6.3% of total personal income, and 5.3% of gross state product (GSP). Gross GO and lease appropriation backed debt service is moderate, at 4.5% of general government-wide (all funds) spending in fiscal year 2011 (audited). Gross GO and COP debt service as a portion of general fund expenditures is cited as equal to 6.6% of fiscal year 2012 expenditures." S&P notes that "continuing transportation needs, including two major urban highway projects, will likely translate into continuing GO issuance in the next two to three years."

Debt Metrics

The primary debt ratios used by rating agencies are:

Debt Per Capita. Debt per capita measures the debt per person, without accounting for the income of the tax base.

Debt as a Percentage of Personal Income. Debt as a percentage of personal income is important because a large portion of the state's revenue base is generated by consumer spending, which is in turn influenced by income levels. As income increases, debt becomes more "affordable". During times of economic downturn, taxpayers' income levels often become strained and the state's debt burden is perceived as less affordable.

Debt as a Percentage of Gross State Product. Debt as a percentage of gross state product measures the state's debt relative to its total economic output. Low debt as a percentage of gross state product (or stable growth in the metric) suggests that the state's gross state product is generating sufficient revenues to repay debt service.

Debt Service as a Percentage of Expenditures. Debt service as a percentage of expenditures measures the budgetary impact of issuing debt. Debt service is a fixed cost within the budget as it generally cannot be deferred or eliminated. As non- discretionary debt service rises as a percentage of expenditures, budgetary flexibility is reduced. Debt can "crowd out" the ability to provide spending for services, infrastructure or other needs in the future.

Figure 29 highlights the state's debt ratios and rankings relative to national medians in the most recent reports of two nationally recognized rating agencies, Moody's and S&P.

Figure 29. **Debt Metrics: A Comparison to National Medians**

	Moody's[1]	S&P[2]
Net Tax-Supported Debt		
Washington	**$17,677,697,000**	**$15,056,000,000**
Median of States	$4,242,808,000	$4,203,000,000
WA Rank Compared to Other States	8th	8th
Net Tax-Supported Debt Per Capita		
Washington	**$2,588**	**$2,239**
Median of States	$1,117	$932
WA Rank Compared to Other States	7th	9th
Net Tax-Supported Debt as % of Personal Income		
Washington	**6.00%**	**5.14%**
Median of States	2.80%	2.50%
WA Rank Compared to Other States	10th	11th
Net Tax-Supported Debt as % of GSP		
Washington	**5.19%**	**4.48%**
Median of States	2.40%	2.20%
WA Rank Compared to Other States	8th	12th
Debt Burden as % of Total Government Expenditures		
Washington		**5.37%**
Median of States		3.60%

1. *2012 State Debt Medians Report*. Moody's U.S. Public Finance. May 22, 2012.
2. Most recent report: *2011 State Debt Review*. Standard & Poor's. May 25, 2011.

Figure 30 below compares Washington's debt metrics with other highly rated states. It is difficult to identify peer states for state issuers due to the fundamentally different economic, revenue, debt and income characteristics. The states identified in the table below have comparable or higher credit ratings, and some similar demographic characteristics. Of these peers, only Massachusetts and Florida have more debt, although Delaware, Georgia, Maryland, Florida, Massachusetts, and Oregon face heavier debt burdens as a share of expenditures. Within the list, only Delaware and Massachusetts have higher debt per capita and debt in these two states is a larger portion of personal income.

Figure 30. State of Washington Peer States

	Ratings[4] (S&P/Moody's/ Fitch)	Debt Per Capita[1]	Debt as % of Personal Income[1]	Debt Service as % of Expenditures[2]	Debt as % of GSP[2]	Total Net Tax-Supported Debt[1,3]
Colorado	AA/Aa1/NR	$529	1.3%	2.10%	1.05%	$2,709
Delaware	AAA/Aaa/AAA	$2,674	6.8%	6.70%	3.89%	$2,425
Florida	AAA/Aa1/AAA	$1,167	3.0%	9.71%	2.97%	$22,242
Georgia	AAA/Aaa/AAA	$1,099	3.1%	8.00%	2.68%	$10,788
Maryland	AAA/Aaa/AAA	$1,742	3.6%	6.90%	3.44%	$10,151
Massachusetts	AA+/Aa1/AA+	$4,814	9.4%	6.20%	8.37%	$31,715
Minnesota	AA+/Aa1/AA+	$1,148	2.7%	2.30%	2.27%	$6,136
Missouri	AAA/Aaa/AAA	$741	2.0%	1.90%	1.83%	$4,455
Nevada	AA/Aa2/AA+	$793	2.2%	3.74%	1.72%	$2,160
North Carolina	AAA/Aaa/AAA	$815	2.3%	3.60%	1.85%	$7,867
Ohio	AA+/Aa1/AA+	$1,012	2.8%	2.90%	2.45%	$11,681
Oregon	AA+/Aa1/AA+	$2,015	5.5%	12.10%	4.48%	$7,802
Texas	AA+/Aaa/AAA	$588	1.5%	1.50%	1.25%	$15,104
Utah	AAA/Aaa/AAA	$1,393	4.4%	5.00%	3.43%	$3,924
Virginia	AAA/Aaa/AAA	$1,169	2.6%	3.20%	2.23%	$9,466
Washington	**AA+/Aa1/AA+**	**$2,588**	**6.0%**	**5.37%**	**5.19%**	**$17,678**
Median		$1,117	2.80%	3.60%	2.40%	$4,243

1. *2011 State Debt Medians Report*. Moody's U.S. Public Finance. June 3, 2011.
2. GSP – Gross State Product. Most recent report: *2011 State Debt Review*. Standard & Poor's. May 25, 2011.
3. Dollars in millions.
4. Ratings as of December 17, 2012.

9. The 2011 State Commission on Debt

Based on the 2010 Debt Affordability Study, the Legislature formed a Commission on State Debt in 2011 to examine trends in the use of all forms of state obligations, and to address the impact of debt service payments on operating budget expenditures. The Commission also examined limitations on the use of each type of debt. The Commission recommended changes to policies which would stabilize the state's capacity to incur new debt for sustainable and predictable capital budgets, reduce the growth in debt service payments, and maintain and enhance the state's credit rating.

These recommendations formed the basis for the amendment to the constitutional debt limit approved by the Legislature and the voters in 2012. To date, no action has been taken on the recommendation to form a Debt Advisory Council (modeled on the Economic and Revenue Forecast Council and the Caseload Forecast Council) to continue the work of the Debt Commission.